

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**AUDIT REPORT**

**Fiscal Year Ended June 30, 2010**

SOUTH DAKOTA SCIENCE & TECHNOLOGY AUTHORITY  
AUTHORITY OFFICIALS  
June 30, 2010

Board of Directors:

Casey Peterson, Chairman  
Mr. Dana Dykhouse, Vice-Chairman  
Pat Lebrun, Secretary/Treasurer  
Thomas C. Adam, Member  
Dr. Ani Aprahamian, Member  
Dr. Charles Shank, Member

Executive Director:

Ron Wheeler

Chief Financial Officer:

Nancy Geary

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY  
TABLE OF CONTENTS

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	1
Schedule of Prior Findings .....	3
Schedule of Current Audit Findings .....	3
Independent Auditor's Report .....	4
<i>Management's Discussion and Analysis (MD&amp;A)</i> .....	6
Basic Financial Statements:	
As of June 30, 2010:	
Statement of Net Assets .....	11
For the fiscal year ended June 30, 2010:	
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	12
Statement of Cash Flows .....	13
Notes to the Financial Statements .....	15
Supplementary Information:	
Schedule of Operating Expenses .....	22



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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Dennis Dugaard  
Governor of South Dakota

and

Board of Directors  
South Dakota Science and Technology Authority

We have audited the financial statements of the South Dakota Science and Technology Authority (Authority) a business-type activities component unit of the State of South Dakota, as of and for the fiscal year ended June 30, 2010 and have issued our report thereon dated February 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

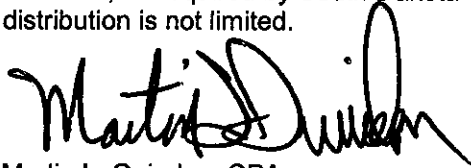
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not

an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate communication dated February 22, 2011.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the South Dakota Science and Technology Authority, and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is stylized with a large, looped "M" and a long, sweeping "G".

Martin L. Guindon, CPA  
Auditor General

February 22, 2011

SCIENCE AND TECHNOLOGY AUTHORITY  
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

**SCHEDULE OF PRIOR AUDIT FINDINGS**

**Prior Audit Findings:**

The prior audit report contained no written audit findings.

**SCHEDULE OF CURRENT AUDIT FINDINGS**

**Current Audit Findings:**

There are no written current audit findings to report.



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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

## INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard  
Governor of South Dakota

and

Board of Directors  
South Dakota Science and Technology Authority

We have audited the accompanying financial statements of the South Dakota Science and Technology Authority (Authority), a business-type activities component unit of the State of South Dakota, as of and for the fiscal year ended June 30, 2010, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

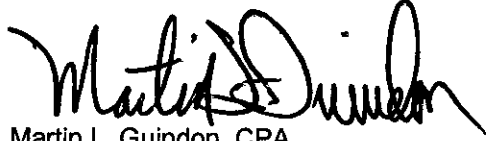
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Science and Technology Authority as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2011 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 6 through 10 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority. The Schedule of Operating Expenses listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is stylized with a large, looped "M" and a long, sweeping "G".

Martin L. Guindon, CPA  
Auditor General

February 22, 2011



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **JUNE 30, 2010**

This section of the South Dakota Science and Technology Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2010 (FY 2010). This analysis should be read in conjunction with the Independent Auditor's Report, financial statements, and notes to the financial statements.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purpose of converting its acquired Homestake mine property into an underground science and engineering laboratory. The property was donated to the Authority by Barrick Gold in May 2006.

The activity of the Authority is accounted for as a proprietary fund type. The Authority is a component unit of the State of South Dakota and its financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

#### **FINANCIAL HIGHLIGHTS:**

- Total assets at year end increased to \$103,926,604.
- Current and Other Assets decreased by \$872,957, which is primarily due to the reduction of cash held by the State Treasurer on behalf of the Authority. An additional classification has been included to address the warehouse and personal protection equipment which added \$77,080 to current assets. This category contains an inventory of various supplies, and personal protection equipment that are being stored for future use by the Authority.
- Capital Assets increased by \$9,284,921. Pages 8 and 9 detail the major capital asset additions. Furthermore, page 18 summarizes the changes in capital assets by the major categories.
- Total liabilities at year end decreased to \$2,009,857, primarily due to a reduction in accounts payable at the end of the fiscal year.
- Total net assets at year end increased to \$101,916,747.
- Total restricted net assets decreased to \$46,329,719, down slightly from last year, due to the reduction of cash held by the State Treasurer on behalf of the Authority.
- Charges for services increased to \$717,028, primarily due to a cooperative agreement with the S.D. School of Mines and Technology for staff and employee services to further the development of planning for the underground and surface laboratories. Additional revenue was received from scrap metal salvaged throughout the year from the facility. Further revenue was received from various universities for various projects that were paid for by the Authority.
- Capital Grants and Contributions decreased to \$20,012,059 (down \$2,136,386 from the prior year). The majority of the revenue received in this category was from the \$20,000,000 of restricted funds from Sanford. We received \$20,000,000 of the Sanford Gift #2 on December 28, 2009.
- Earnings on investments were reduced to \$1,960,465 compared to \$3,008,490 in 2009. This decrease was mainly due to decreased principal.
- Total expenses for the Authority were \$13,754,382 which was a 10.05 percent increase from the previous year. This increase was mainly due to increased staff and contracted services. Of this \$13,754,382, the major expenses were for personal services – 46.4 percent, operating expenses – 28.2 percent, and contractual services – 11.7 percent.
- The change in net assets for the year was \$8,935,170.

**FINANCIAL STATEMENT ELEMENTS:****NET ASSETS**

	2010	2009	Dollar Change	Percent Change
Current and Other Assets	\$ 50,310,406	\$ 51,183,363	\$ (872,957)	-1.71%
Capital Assets	53,616,198	44,331,267	9,284,931	20.94%
<b>Total Assets</b>	<b>103,926,604</b>	<b>95,514,630</b>	<b>8,411,974</b>	<b>8.81%</b>
Long-Term Liabilities Outstanding	148,969	106,429	42,540	39.97%
Other Liabilities	1,860,888	2,426,624	(565,736)	-23.31%
<b>Total Liabilities</b>	<b>2,009,857</b>	<b>2,533,053</b>	<b>(523,196)</b>	<b>-20.65%</b>
<b>Net Assets:</b>				
Invested in Capital Assets	53,616,198	44,331,267	9,284,931	20.94%
Restricted	46,329,719	46,994,951	(665,232)	-1.42%
Unrestricted	1,970,830	1,655,359	315,471	19.06%
<b>Total Net Assets</b>	<b>\$ 101,916,747</b>	<b>\$ 92,981,577</b>	<b>\$ 8,935,170</b>	<b>9.61%</b>

**CHANGE IN NET ASSETS**

	2010	2009	Dollar Change	Percent Change
<b>Revenues</b>				
Program Revenues:				
Charges for Services	\$ 717,028	\$ 473,845	\$ 243,183	51.32%
Capital Grants and Contributions	20,012,059	22,148,445	(2,136,386)	-9.65%
General Revenues:				
Investment Earnings	1,960,465	3,008,490	(1,048,025)	-34.84%
<b>Total Revenue</b>	<b>22,689,552</b>	<b>25,630,780</b>	<b>(2,941,228)</b>	<b>-11.48%</b>
Program Expenses:				
Science and Technology Authority	13,754,382	12,497,900	1,256,482	10.05%
<b>Total Expense</b>	<b>13,754,382</b>	<b>12,497,900</b>	<b>1,256,482</b>	<b>10.05%</b>
Change in Net Assets	8,935,170	13,132,880	(4,197,710)	-31.96%
Net Assets-Beginning	92,981,577	79,848,697	13,132,880	16.45%
<b>Net Assets-Ending</b>	<b>\$ 101,916,747</b>	<b>\$ 92,981,577</b>	<b>\$ 8,935,170</b>	<b>9.61%</b>

By June 30, 2010, the Authority had invested \$53,616,198 in a broad range of capital assets, including land, buildings, various machinery, and equipment. This amount represents a net increase (including additions and deductions) of \$9,284,931, or 20.94 percent, over the last year.

**CAPITAL ASSETS (Net of Depreciation)**

	2010	2009	Change
Improvements	\$ 22,598,150	\$ 18,562,567	\$ 4,035,583
Underground	11,959,447	10,749,337	1,210,110
Buildings	6,490,217	6,668,546	(178,329)
Computer Equipment	267,949	305,424	(37,475)
Equipment	5,298,509	3,897,034	1,401,475
Construction in Progress	4,723,057	1,868,290	2,854,767
Land	1,534,038	1,534,038	0
Infrastructure	543,738	560,137	(16,399)
Furniture	65,611	70,789	(5,178)
Archive Material	70,000	70,000	0
Auto	65,482	45,105	20,377
<b>Total Capital Assets</b>	<b>\$ 53,616,198</b>	<b>\$ 44,331,267</b>	<b>\$ 9,284,931</b>

This year's major capital asset additions included:

*Purchased Capital Assets:*

- Multi Media Sand Filter System  
\$615,022
- 3.25 Ton Locomotive  
\$62,193
- Dry Ice Blast Unit  
\$17,750
- Chemical Outdoor Storage Locker  
\$28,870
- 3 Autos  
\$28,832
- Torque Machine  
\$13,957
- Telephone Expansion  
\$42,065
- Various Electrical Switchgear, Controllers, Fuse Disconnects  
\$209,883
- Computer Equipment-Server/Rack/and PLC Mine Monitor Equipment  
\$24,738
- LUX Surface Lab-Clean Room, Pumps, HVAC Equipment  
\$169,200
- Mini Hydraulic Excavator With Drilling Attachment  
\$26,940
- John Deere Skid Steer  
\$23,241
- Sanyo Air Conditioning System for IT Room  
\$41,402
- Various Ventilation Equipment  
\$216,991
- Various Mine Pumping Equipment  
\$69,231
- Hydraulic Motor and Cutter  
\$14,386
- Generators and Air Compressors  
\$27,966

*Improvements (Including Current Year Additions and Projects from Improvements in Progress):*

- LUX Surface Lab  
\$1,563,831
- Pole Frame Building Improvement  
\$14,184
- Yates Fencing  
\$10,470
- Power Upgrades (Including fiber optics, underground, and substation upgrades)  
\$525,078
- Yates Shaft  
\$2,185,614
- Pumping System  
\$159,653
- Underground Mitigation Improvements  
\$1,210,110

## LONG-TERM DEBT

At the year-end, the Authority had \$148,969 in other long-term obligations. This is an increase of 39.97 percent as shown below.

	2010	2009	Total Dollar Change	Total Percentage Change
Compensated Absences	\$ 148,969	\$ 106,429	\$ 42,540	39.97%

The Authority is liable for the accrued vacation leave payable to all full-time employees. In addition, the Authority is liable for a portion of the earned sick leave of employees who have been employed for seven consecutive years. The increase is due to an increase in number of employees and the corresponding amount of leave accumulated and outstanding at the end of the year.

## ECONOMIC FACTORS

- After the Homestake Mine site was selected by the National Science Foundation (NSF) on July 10, 2007, as the preferred site for the proposed national Deep Underground Science and Engineering Laboratory (DUSEL), Lawrence Berkeley National Laboratory and the South Dakota Science and Technology Authority negotiated a Memorandum of Understanding (MOU). This MOU outlined collaborative activities that will be necessary to carry out the technical design development program agreement to develop the former Homestake Mine into the DUSEL. The MOU defined four phases of this development.

Phase 1: Rehabilitation, Re-entry and Maintenance Actions for Mining-to-Labs Conversion.

Phase 2: Early Implementation Program for Science and Engineering Laboratories.

Phase 3: Re-entry and Access to Deep Levels below 4850'.

Phase 4: DUSEL Science and Engineering Laboratories.

- The Authority's fiscal year 2010 capital budget provided for spending \$9,074,596 for continued mine re-entry, water removal, and infrastructure rehabilitation. Another \$6,149,474 was budgeted for the Science Implementation Program for various experiments and engineering laboratories. Total budgeted dollars for these projects was at \$15,224,070. Actual expenditures were only \$11,693,116. Additionally, an operations budget of \$13,581,023 had been provided for to manage and operate the facility. Actual expenditures were only \$11,291,684. Thus, the Authority stayed within their budget allotments for the year.
- The Authority's fiscal year 2011 capital budget provides for spending \$3,903,075 for continued mine re-entry, water removal, and infrastructure rehabilitation. Significant projects include installation of a new decant pipeline to carry Grizzly Gulch wastewater to the Authority's water treatment plant, additional emergency response safety equipment, additional power and distribution upgrades, surface facilities renovations, upgrades to shaft conveyances, as well as underground hazard mitigation projects. Another \$9,142,641 is budgeted for the Science Implementation Program for various experiments and engineering laboratories. This includes infrastructure upgrades and design, build systems (outfitting) for various experiments before evolving into the DUSEL. Additionally, an operations budget of \$13,590,473 has been approved to manage and operate the facility. Funding for these projects will come primarily from the \$35 million of the \$70 million gift from T. Denny Sanford and \$7.5 million of the Sanford Gift #2 that was received in December 2009. An amendment to the Homestake Gift Agreement was signed in June 2010 whereby it was agreed upon to use \$7.5 million of the \$20 million stipulated for the Sanford Center for Science Education for the purpose of infrastructure and safety upgrades at the Underground Davis Campus. Outfitting will continue into fiscal year 2012. The NSF's interim review corroborates the preliminary design progress as of December 2010. With later NSF support, DUSEL will become a major national facility for education and research.

## **LEGAL AND ENVIRONMENTAL COMPLIANCE**

The Authority is in compliance with all legal and environmental regulations.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, contact the South Dakota Science and Technology Authority, 630 East Summit Street, Lead, SD 57754.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2010**

**ASSETS**

**Current Assets**

Cash in Local Bank and Petty Cash	\$ 403,094
Cash on Deposit with State Treasurer	46,580,187
Accounts Receivable	112,976
Interest Receivable	271,567
Prepaid Expenses	1,340,753
Inventory of Supplies	1,601,829
<b>Total Current Assets</b>	<b>50,310,406</b>

**Noncurrent Assets**

Land	1,534,038
Underground	11,959,447
Improvements in Progress	4,723,057
Buildings, Machinery, Equipment and Infrastructure (Net) (Note 3)	35,399,656
<b>Total Noncurrent Assets</b>	<b>53,616,198</b>

<b>TOTAL ASSETS</b>	<b>103,926,604</b>
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**LIABILITIES**

**Current Liabilities**

Accounts Payable	1,125,698
Accrued Wages and Benefits	586,220
Accrued Leave and Benefits	148,970
<b>Total Current Liabilities</b>	<b>1,860,888</b>

**Long-Term Liabilities**

Accrued Leave and Benefits, Net of Current Portion (Note 4)	148,969
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<b>TOTAL LIABILITIES</b>	<b>2,009,857</b>
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**NET ASSETS**

Invested in Capital Assets	53,616,198
Restricted for:	
Mine Closure	1,280,628
Insurance	1,738,348
Indemnification	10,000,000
Interim Lab-Sanford	20,210,547
Sanford Center for Science Education	13,100,196
Unrestricted Net Assets	1,970,830

<b>TOTAL NET ASSETS</b>	<b>\$ 101,916,747</b>
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The accompanying notes are an integral part of this statement.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Operating Revenue</b>	
Charges for Services	\$ 717,028
<b>Total Operating Revenue</b>	<b>717,028</b>
<b>Operating Expenses</b>	
Personal Services	6,386,244
Travel	78,336
Contractual Services	1,614,757
General and Administrative	792,599
Supplies, Materials and Other Operating Expenses	3,883,165
Depreciation Expense	938,710
<b>Total Operating Expenses</b>	<b>13,693,811</b>
<b>Operating Loss</b>	<b>(12,976,783)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Contributions (Note 8)	20,000,000
Grant Revenue	12,059
Interest Revenue	1,960,465
Loss on Sale of Assets	(60,571)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>21,911,953</b>
<b>Change in Net Assets</b>	<b>8,935,170</b>
<b>Net Assets -- Beginning of Year</b>	<b>92,981,577</b>
<b>Net Assets -- End of Year</b>	<b>\$ 101,916,747</b>

The accompanying notes are an integral part of this statement.

**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010**

**Cash Flows from Operating Activities:**

Other Operating Cash Receipts	\$ 729,327
Cash Payments to Employees for Services	(6,124,228)
Cash Payments to Suppliers of Goods and Services	(7,435,443)
<b>Net Cash Used in Operating Activities</b>	<b>(12,830,344)</b>

**Cash Flows from Capital and Related Financing Activities:**

Capital Grants and Donations	20,012,059
Purchase of Capital Assets	(10,858,133)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>9,153,926</b>

**Cash Flows from Investing Activities:**

Interest Earnings	2,125,386
<b>Net Cash Provided by Investing Activities</b>	<b>2,125,386</b>

**Net Decrease in Cash and Cash Equivalents** (1,551,032)

Cash and Cash Equivalents at Beginning of Year 48,534,313

**Cash and Cash Equivalents at End of Year** **\$ 46,983,281**

**Reconciliation of Operating Loss to Net Cash Used in Operating Activities:**

Operating Loss	\$(12,976,783)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>	
Depreciation Expense	938,710
<b>Change in Assets and Liabilities:</b>	
Receivables	12,299
Prepaid Expenses	(837,964)
Inventory of Supplies	(276,490)
Accounts and Other Payables	47,868
Accrued Wages Payable	176,934
Accrued Leave Payable	85,082

**Net Cash Used in Operating Activities** **\$(12,830,344)**

Continued on next page.



**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2010**

**Cash and Cash Equivalents:**

Cash in Local Bank	\$ 403,044
Petty Cash	50
Cash with State Treasurer	46,580,187
<b>Total Cash and Cash Equivalents</b>	<b>\$ 46,983,281</b>

**Non-Cash Capital and Related Financing Activities:**

Purchase of Capital Assets Through Accounts Payable	\$ (611,481)
Transfer of Fixed Assets to Inventory	\$ 13,372
Transfer of Fixed Assets from Inventory	\$ (36,732)
Loss on Disposal of Assets	\$ 60,571
Sale of Capital Assets Through Accounts Receivable	\$ 26,500

The accompanying notes are an integral part of this statement.

SCIENCE AND TECHNOLOGY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity:

The South Dakota Science and Technology Authority (Authority) was created and organized by Chapter 1-16H of the South Dakota Codified Laws. The purposes of the Authority are to foster and facilitate scientific and technology investigation, experimentation, and development by creating a mechanism through which laboratory, experimental, and development facilities may be acquired, developed, constructed, maintained, operated, and decommissioned. The initial focus of the Authority is to support the transfer of the Homestake Gold Mine in Lead, South Dakota for development by the research community to become the world's premier Deep Underground Science and Engineering Laboratory (DUSEL).

The Authority is a business type component unit of the State of South Dakota. As such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

b. Fund Accounting:

The Authority Fund is accounted for as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise fund does not apply any FASB Statements and Interpretations issued after November 30, 1989.

c. Basis of Accounting:

The Authority Fund follows the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

d. Inventory of Supplies:

Inventory of supplies primarily consists of expendable equipment/supplies donated and purchased equipment/supplies not yet in service. Donated inventory of supplies are valued at their estimated fair value on the date of donation. Purchased inventory of supplies are valued at average cost. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use at a later date.

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

Capital assets are recorded at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Revenues, Expenses and Changes in Fund Net Assets, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the Statement of Net Assets.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Authority's financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land and Land Rights	\$ all land	----N/A-----	----N/A-----
Improvements	\$ 5,000	Straight-line	10-50 yrs.
Infrastructure	\$ 5,000	Straight-line	25-50 yrs.
Buildings	\$ 5,000	Straight-line	25-50 yrs.
Automobiles, Furniture, Machinery, and Equipment	\$ 5,000	Straight-line	5-75 yrs.

f. Revenue and Expense Classifications:

In the Statement of Revenues, Expenses and Changes in Fund Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

g. Cash and Cash Equivalents:

Cash includes cash on hand, demand deposits and a participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value. The Authority essentially has access to the entire amount of their cash resources on demand. Accordingly, equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

h. Equity Classifications:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

i. Application of Net Assets:

It is the Authority's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

j. Accrued Leave:

The accounting for enterprise fund long-term debt is on the accrual basis. The long-term liabilities consist of compensated absences. Compensated absences consist of vacation and sick leave earned. The vacation leave is earned by full-time employees at the rate of 4.62 hours per pay-period, increasing to 6.16 hours per pay-period after 15 years of service. The vacation leave may accumulate only to a maximum of twice the annual accrual. Upon retirement or resignation, only full-time employees with 180 days of continuous service will be paid for accumulated vacation. Sick leave is earned at the rate of 4.31 hours per pay-period, and is prorated for part-time employees. Upon termination, some employees are entitled to receive compensation at the rate of 25 percent of their balance up to a maximum of 480 hours. The rates for accumulating vacation and sick leave hours changed slightly from the prior year due to the change in January 2010 to a biweekly payroll schedule.

2. DEPOSITS AND INVESTMENTS

Deposits:

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the audit report of the South Dakota Investment Council.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. None of the Authority's deposits were exposed to custodial credit risk.

Investments:

In general, SDCL 1-16H-18 permits funds to be invested in (a) direct obligations of, or obligations the principal of the interest on which are fully guaranteed or insured by, the United States of America; or (b) obligations of any solvent insurance company or other corporation or business entity if rated in the two highest classifications established by a standard rating service of insurance companies or a nationally recognized rating agency; or (c) short term discount obligations of the Federal National Mortgage Association; or (d) obligations of any state of the United States or any political subdivision, public instrumentality, or public authority of any state of the United States, which obligations are not callable before the principal is to be paid, are fully secured as to both sufficiency and timely payment by, and payable solely from, obligations described in (a). The Authority did not have any investments as of June 30, 2010.

### 3. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2010 is as follows:

	Balance July 1, 2009	Reclassified*	Increases	Decreases**	Balance June 30, 2010
<b>Business-Type Activities:</b>					
<b>Capital Assets, Not Being Depreciated:</b>					
Land	\$ 1,534,038	\$	\$	\$	\$ 1,534,038
Underground Mine	10,749,337		1,210,110		11,959,447
Archive Materials	70,000				70,000
Construction Work in Progress (Note 9)	1,868,290	(575,056)	3,443,195	(13,372)	4,723,057
<b>Total Capital Assets, Not Being Depreciated</b>	<b>14,221,665</b>	<b>(575,056)</b>	<b>4,653,305</b>	<b>(13,372)</b>	<b>18,286,542</b>
<b>Capital assets, Being Depreciated:</b>					
Automobiles	50,423		28,832		79,255
Buildings	7,258,622			(35,536)	7,223,086
Furniture	74,212				74,212
Computer Equipment	310,346		24,738		335,084
Improvements	18,597,600	514,056	3,944,773		23,056,429
Infrastructure	572,623				572,623
Machinery and Equipment	4,124,384	61,000	1,634,381	(17,859)	5,801,906
<b>Total Capital Assets, Being Depreciated</b>	<b>30,988,210</b>	<b>575,056</b>	<b>5,632,724</b>	<b>(53,395)</b>	<b>37,142,595</b>
<b>Total Capital Assets, Before Depreciation</b>	<b>45,209,875</b>	<b>0.00</b>	<b>10,286,029</b>	<b>(66,767)</b>	<b>54,429,137</b>
<b>Less Accumulated Depreciation:</b>					
Automobiles	5,318		8,455		13,773
Buildings	590,076		145,753	(2,960)	732,869
Computer Equipment	4,922		62,213		67,135
Furniture	3,423		5,178		8,601
Improvements	35,033		423,246		458,279
Infrastructure	12,486		16,399		28,885
Machinery and Equipment	227,350		277,466	(1,419)	503,397
<b>Total Accumulated Depreciation</b>	<b>878,608</b>		<b>938,710</b>	<b>(4,379)</b>	<b>1,812,939</b>
<b>Capital Assets, Net</b>	<b>\$ 44,331,267</b>	<b>\$ 0.00</b>	<b>\$ 9,347,319</b>	<b>\$ (62,388)</b>	<b>\$ 53,616,198</b>

\*Reclassifications are due to the Authority performing analysis of assets that were previously grouped in construction work in progress as of June 30, 2010. Various improvements were completed or were transferred to equipment placed in service.

\*\*Decreases developed primarily due to the demolition of the Plumbers Shed and the sale of a surplus transformer.

### 4. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued Compensated Absences- Business-Type Funds	\$ 212,857	\$ 330,850	\$ 245,768	\$ 297,939	\$ 148,969

5. RETIREMENT PLAN

The Authority participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security. The Authority's contributions to the SDRS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$331,469, \$205,894 and \$49,303, respectively, equal to the required contributions each year.

6. RELATED PARTY TRANSACTIONS

The Authority paid \$32,157 to May, Adam, Gerdes & Thompson in which a board member had an interest. These transactions are not considered conflicts of interest as noted in SDCL 1-16H-12 as long as the affected board member abstains from deliberation, action, and vote by the Authority in each instance where the business affiliation of any such trustee, director, officer, or employee is involved.

7. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no insurance claims exceeding insurance coverage during the past three years. During the period ended June 30, 2010, the Authority managed its risks as follows:

Building Structures Coverage:

The buildings and permanent structures owned by the Authority are not covered by commercial insurance.

Personal Property (Contents) Insurance:

The Authority purchases insurance for the contents of the administration building from a commercial insurance carrier, however, the contents of the other Authority buildings are not insured.

Employee Health Insurance:

The Authority purchases health insurance for its employees from a commercial insurance carrier.

Liability Insurance:

The Authority purchases liability insurance for risks related to torts; theft or damage of property; and errors and omissions of public officials from a commercial insurance carrier.

Worker's Compensation:

The Authority purchases liability insurance for workmen's compensation from a commercial carrier.

### Unemployment Benefits:

The Authority provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

## 8. SIGNIFICANT COMMITMENTS, CONTRACTS AND SUBSEQUENT EVENTS

On December 23, 2009, the Authority received \$20,000,000, designated as Sanford Gift #2 that will be used to establish the Sanford Center for Science Education. An amendment to the Homestake Gift Agreement was signed in June 2010 whereby it was agreed to use \$7.5 million of this \$20 million for infrastructure and safety upgrades at the Underground Davis Campus. The restricted balance as of June 30, 2010 of \$13,100,196 includes the \$12,500,000 balance left to establish the Sanford Center for Science Education along with \$600,196 of interest earned. Furthermore, when and if Gift #3 is distributed, an amount equal to the amount of Gift #2 that was redirected to the Underground Davis Campus will be redesignated for the Sanford Center for Science Education.

In November 2008, the Authority signed a new contract with RCS Construction in the amount of \$8,982,365 for the rehabilitation of the Yates Shaft. This contract amount was reduced to \$6,536,241 in May 2009 due to reducing the scope for electrical upgrades to the 4850' level. In March 2010, this contract amount was reduced to \$6,511,301 due to additional reductions in scope. The costs for this project were capitalized as the work progressed. This contract was completed in March 2010.

In February 2010, the Authority entered into a contract with AmWest, Inc.-Hydro Resources in the amount of \$1,540,000 for the installation and maintenance of a deep level pump system. The leased pump system is designed to dewater the mine from approximately the 5000' level to approximately the 7800' level. In the agreement, the Authority agrees to make lease payments for a minimum of 12 months rental of equipment. If the system continues to work as projected the lease would be continued until the mine is dewatered to the 7800' level. The projected date is late 2012 or early 2013. It is the Authority's intent to transfer this contract to the LLC discussed in Note 11.

In July and August of 2010, the Authority signed contracts with RCS Construction and with CVD Construction to install a new decant pipeline from Homestake's property to the Mill Reservoir. This pipeline will carry the Grizzly Gulch water to the Mill Reservoir to be blended with mine water and eventually treated and released downstream. The contract amounts are \$580,000 and \$131,750 respectively. The contracts are expected to be complete by the middle of November 2010.

In March 2010, the Authority signed a long term cooperative agreement with Homestake Mining Company of California. The Authority has agreed to combine Homestake's wastewater from Grizzly Gulch with the mine wastewater, as well as treat, and discharge the water. For the first year of this agreement, Homestake has agreed to pay the Authority an amount ranging from \$.58 to \$.84 per 1000 gallons based on an average total gallons treated per minute per month. Estimated revenue from this agreement for the first year is \$310,000. This negotiated treatment price will be renegotiated once per year for the length of the contract. The term of the contract runs to September 30, 2020.

## 9. CONSTRUCTION WORK IN PROGRESS

The Authority accumulates the costs of construction projects in Construction Work in Progress until such time as the projects are completed and/or placed in service. Some of the ongoing improvement projects are capitalized as they progress. The \$4,723,057 of construction work in progress at June 30, 2010, consisted of accumulated costs on a science lab project totaling \$3,809,488 in addition to the accumulated costs of several other improvement projects. The costs accumulated consist of amounts under contract in addition to materials and other expenses purchased by the Authority. The remaining commitment on existing contracts at June 30, 2010 is approximately \$918,228. These commitments are to be paid for using current accumulated funds.

10. CONTINUING OPERATIONS

The National Science Foundation's (NSF) final review of the preliminary design for the Deep Underground Science and Engineering Laboratory (DUSEL) is slated for summer of 2011. A funding proposal was submitted by UC Berkeley to the NSF as of September 2010. This proposal would provide interim funding to operate the current Lab structure and other Authority expenses from April 1, 2011 through January 31, 2012. The National Science Board rejected this proposal on the grounds they felt the Department of Energy should operate the facility. While the Department of Energy indicates interest in doing so, they are left without operational funds to support the lab in federal FY 2011. The National Science Foundation intends to provide up to \$4 million to cover the continuing efforts for the pumping of water and other operations at the Authority for the balance of federal FY2011. Furthermore, the Department of Energy has submitted a budget request for \$15 million to support the laboratory operations in federal FY2012. Efforts are ongoing in Washington, DC for additional funding as well. If the Department of Energy's request is not approved, efforts would be needed to seek funding from other sources to maintain and operate the laboratory operations to press forward for the (DUSEL) if approved in the future.

If the Department of Energy assumes funding responsibility for the underground laboratory, it may be necessary to turn the operation of the facility over to an LLC, which would be created to operate the facility, much like the many national labs funded by the Department of Energy. This LLC would be a non-profit corporation partially owned by the Authority, the South Dakota Board of Regents and other national universities. However, at this time it is unclear if that will be necessary.

11. OPERATING LEASE

As previously stated in Note 8, the Authority is leasing a deep level pump system from AmWest, Inc. – Hydro Resources. This leased property is classified as an operating lease. Total expenditures on this lease for the fiscal year ended June 30, 2010 were \$680,000. The Authority was required to pay \$600,000 upon execution of the contract and upon delivery of the pumping/motor control equipment. This prepaid amount of \$600,000 will be credited to subsequent lease payments in fiscal year 2011. The first lease payment of \$80,000 was due June 30, 2010. As stated in Note 8, it is the intention of the Authority to transfer this lease to the LLC.

As of June 30, 2010, the Authority had future minimum payments under this operating lease with a remaining term in excess of one year as follows:

Fiscal year ending June 30:

2011	\$ 890,000
2012	\$ 360,000
2013	\$ 360,000



**SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**

**SCHEDULE OF OPERATING EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Personal Services</b>	
Employee Salaries	\$ 5,072,199
Employee Benefits	1,314,045
<b>Total Personal Services</b>	<b>6,386,244</b>
<b>Travel</b>	
Auto and Fleet Services	21,321
Non-Employee Travel	19,432
Meals and Lodging	18,752
Air - Commercial and Charter	13,144
Incidentals to Travel	5,185
Meals (Not Overnight)	502
<b>Total Travel</b>	<b>78,336</b>
<b>General and Administrative</b>	
Insurance	316,691
Equipment Rental	162,419
Workshop and Registration Fees	70,407
Computer Services	49,354
Telecommunications	47,708
Safety	38,487
Licenses and Permits	37,609
Training	21,251
Promotion and Advancement	19,970
Other Expenses	16,639
Employee Recruitment	6,815
Dues and Memberships	4,843
Bank Charges	406
<b>Total General and Administrative</b>	<b>792,599</b>
<b>Contractual Services</b>	
Contractual - Other	1,236,902
Lobbying	200,080
Monitoring and Programming	68,744
Legal Consultant	60,359
Risk, Insurance and Consulting	23,900
Consultant Fees - Accounting and Auditing	15,750
Engineering and Architectural	9,022
<b>Total Contractual Services</b>	<b>1,614,757</b>
<b>Supplies, Materials and Other Operating Expenses</b>	
Maintenance and Repairs	1,611,520
Utilities	1,577,775
Other Supplies and Equipment	585,369
Office Supplies and Equipment	103,237
Postage	5,264
<b>Total Supplies and Materials</b>	<b>3,883,165</b>
<b>Depreciation Expense</b>	<b>938,710</b>
<b>Total Operating Expenses</b>	<b>\$ 13,693,811</b>